

**ZION RECOVERY SERVICES, INC.**

**INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2012 AND 2011**

ZION RECOVERY SERVICES, INC.

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	4
Statements of Activities and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures by Activity	11
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	12
Schedule of Findings	14

ZION RECOVERY SERVICES, INC.  
Officials  
June 30, 2012

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

Mark Wedemeyer, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Greenfield, Iowa

Adel, Iowa

Sidney, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

# Gronewold, Bell, Kyhnn & Co. P.C.

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CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Zion Recovery Services, Inc.  
Atlantic, Iowa

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2012 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Directors  
Zion Recovery Services, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Zion Recovery Services, Inc.'s basic financial statements. The supplementary information on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Ben, Kuhn & Co., P.C.

Atlantic, Iowa  
August 31, 2012

ZION RECOVERY SERVICES, INC.  
Balance Sheets  
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 92,031	\$ 145,296
Certificates of deposit	320,434	317,011
Accounts receivable, less allowance for doubtful accounts (\$61,000 in 2012 and \$50,000 in 2011)	67,171	87,220
Grant receivables	6,448	8,022
Inventory	79	823
Prepaid expense	<u>27,662</u>	<u>26,368</u>
Total current assets	513,825	584,740
Property and Equipment, Net	<u>12,755</u>	<u>16,294</u>
Total assets	<u>\$ 526,580</u>	<u>\$ 601,034</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 18,804	\$ 10,297
Accrued employee compensation	32,251	33,793
Payroll taxes withheld and accrued	<u>17,753</u>	<u>1,573</u>
Total current liabilities	68,808	45,663
Net Assets:		
Unrestricted	<u>457,772</u>	<u>555,371</u>
Total liabilities and net assets	<u>\$ 526,580</u>	<u>\$ 601,034</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.  
Statements of Activities and Changes in Net Assets  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 903,164	\$ 846,078
Donations	<u>2,800</u>	<u>6,701</u>
Total support	905,964	852,779
Revenue:		
Client fees, net	140,399	170,907
Medicaid fees	212,901	226,940
Access to recovery	33,983	15,154
Interest income	3,487	3,826
Other revenues	<u>48,901</u>	<u>56,476</u>
Total revenue	439,671	473,303
Total Support and Revenue	1,345,635	1,326,082
Expenses:		
Salaries and wages	792,328	717,397
Employee benefits	278,182	233,494
Advertising and promotion	10,195	8,928
Provision for depreciation	6,591	6,735
Food costs	33,866	41,259
Insurance	12,747	12,756
Miscellaneous	8,663	9,901
Professional services	15,968	16,472
Rent	98,397	105,215
Repairs and maintenance	24,735	26,315
Supplies and other expense	92,821	60,195
Telephone	19,737	20,080
Training costs	20,625	15,627
Travel	22,450	20,240
Utilities	<u>5,929</u>	<u>6,779</u>
Total expenses	1,443,234	1,301,393
Increase (Decrease) in Unrestricted Net Assets	( 97,599)	24,689
Net Assets at Beginning of Year	<u>555,371</u>	<u>530,682</u>
Net Assets at End of Year	<u>\$ 457,772</u>	<u>\$ 555,371</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.  
Statements of Cash Flows  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 457,807	\$ 418,059
Cash paid to suppliers and employees	( 1,411,358)	( 1,280,897)
Contract funding received	903,164	870,726
Donations received	110	--
Interest received	<u>3,487</u>	<u>3,826</u>
Net cash provided by (used in) operating activities	( 46,790)	11,714
Cash flows from investing activities:		
Capital expenditures	( 3,052)	( 3,113)
Purchase of certificates of deposit	<u>( 3,423)</u>	<u>( 53,664)</u>
Net cash used in investing activities	<u>( 6,475)</u>	<u>( 56,777)</u>
Net decrease in cash and cash equivalents	( 53,265)	( 45,063)
Cash and cash equivalents at beginning of year	<u>145,296</u>	<u>190,359</u>
Cash and cash equivalents at end of year	<u>\$ 92,031</u>	<u>\$ 145,296</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$( 97,599)	\$ 24,689
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for depreciation	6,591	6,735
Changes in assets and liabilities		
Accounts receivable	21,623	( 26,770)
Inventory	744	110
Prepaid expense	( 1,294)	( 1,561)
Accounts payable	8,507	5,088
Accrued employee compensation	( 1,542)	8,984
Payroll taxes withheld and accrued	<u>16,180</u>	<u>( 5,561)</u>
Total adjustments	<u>50,809</u>	<u>( 12,975)</u>
Net cash provided by (used in) operating activities	<u>\$( 46,790)</u>	<u>\$ 11,714</u>

The Agency also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by (used in) operating activities:

	<u>2012</u>	<u>2011</u>
Iowa Food Bank donations	<u>\$ 2,690</u>	<u>\$ 6,701</u>

The accompanying notes are an integral part of these statements.



ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Inventory

The Agency values the food donations received and food inventory at its estimated wholesale cost to show a realistic cost of providing meals to the patients of the residential treatment center.

5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

6. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are \$184,276 for 2012 and \$141,822 for 2011.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 67% of its total support and revenue through this contract for the year ended June 30, 2012 (64% for 2011). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2013.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Leasehold Improvements	\$ 3,818	\$ 3,818
Equipment	<u>69,463</u>	<u>68,380</u>
	73,281	72,198
Less Accumulated Depreciation	<u>60,526</u>	<u>55,904</u>
	<u>\$ 12,755</u>	<u>\$ 16,294</u>

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2012</u>	<u>2011</u>
Outpatient and Residential Services	\$ 1,128,315	\$ 1,006,330
Management and General	<u>314,919</u>	<u>295,063</u>
	<u>\$ 1,443,234</u>	<u>\$ 1,301,393</u>

NOTE E - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Medicaid	15%	21%
Client accounts	<u>85</u>	<u>79</u>
	<u>100%</u>	<u>100%</u>

NOTE F - PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% (5.78% effective July 1, 2012) of their annual covered salary and the Agency is required to contribute 8.07% (8.67% effective July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$63,300, \$49,200, and \$49,300, respectively, equal to the required contributions for each year.

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE G - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Agency has evaluated all subsequent events through August 31, 2012, the date the financial statements were available to be issued.

\* \* \*

## SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.  
Schedule of Expenditures by Activity  
Year ended June 30,

	2012				2011
	ATR & DUI Services	Outpatient Services	Residential Services	Total	Total
Salaries and wages	\$ 4,532	\$ 545,419	\$ 242,377	\$ 792,328	\$ 717,397
Employee benefits	862	189,138	88,182	278,182	233,494
Advertising and promotion	--	7,469	2,726	10,195	8,928
Provision for depreciation	--	6,591	--	6,591	6,735
Food costs	--	--	33,866	33,866	41,259
Insurance	--	8,158	4,589	12,747	12,756
Miscellaneous	767	7,774	122	8,663	9,901
Professional services	--	12,666	3,302	15,968	16,472
Rent	--	81,597	16,800	98,397	105,215
Repairs and maintenance	--	18,956	5,779	24,735	26,315
Supplies and other expense	15,111	61,296	16,414	92,821	60,195
Telephone	--	15,423	4,314	19,737	20,080
Training costs	--	14,781	5,844	20,625	15,627
Travel	974	18,061	3,415	22,450	20,240
Utilities	--	5,929	--	5,929	6,779
	<u>\$ 22,246</u>	<u>\$ 993,258</u>	<u>\$ 427,730</u>	<u>\$1,443,234</u>	<u>\$1,301,393</u>

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Directors  
Zion Recovery Services, Inc.  
Atlantic, Iowa

We have audited the financial statements of Zion Recovery Services, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Zion Recovery Services, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Zion Recovery Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Zion Recovery Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.



To the Board of Directors  
Zion Recovery Services, Inc.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Zion Recovery Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Zion Recovery Services, Inc. and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gunnwald, Ben, Kuhn & W.P.C.

Atlantic, Iowa  
August 31, 2012

ZION RECOVERY SERVICES, INC.  
Schedule of Findings  
Year ended June 30, 2012

PART I - REPORTABLE CONDITIONS

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. This deficiency is common among most small organizations.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*